

TOP SECRET

11 June 1954

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TOP SECRET

25X1A

SUMMARY

GENERAL

1. France offers to transfer Pondicherry to India (page 3).

25X1

SOVIET UNION

3. Soviet bloc reported considering establishment of steel and oil pool (page 4).

FAR EAST

4. American proposal on exchange rate likely to inflame Rhee (page 5).

SOUTHEAST ASIA

5. French fear their build-up in Tonkin is insufficient (page 5).
6. French alleged planning to release misleading figures on Indochina reinforcements (page 6).

NEAR EAST - AFRICA

7. Pro-British group reported plotting coup in Iran (page 7).

25X1

LATIN AMERICA

9. Argentine foreign minister expresses reservations on OAS meeting (page 8).
10. Argentine government blames Communists for labor strife (page 9).
11. Comment on Bogota disturbances (page 10).

25X1A

25X1A

GENERAL

1. France offers to transfer Pondicherry to India:
25X1A



France is willing to withdraw completely from Pondicherry, its principal remaining possession in India, four months after the institution of an Indo-French condominium

and the holding of "some sort of pro forma vote," according to a French embassy officer in New Delhi. He believes Nehru will accept the French offer, recognizing it is to India's advantage not to continue strained relations with France over a long period.

The official comments that the Portuguese legation in New Delhi is increasingly disturbed by these developments and is constantly urging the French not to succumb to Indian pressure.

Comment: It is unlikely that India will accept any suggestion which entails even a pro forma vote or a temporary condominium which leaves control of the police in French hands.

Portugal is staunchly opposed to any suggestion of compromise on its possessions in India, and holds that any surrender of "national territory" would be unconstitutional and therefore not open to discussion or negotiation.

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25X1A

11 June 54



25X1A

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SOVIET UNION

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3. Soviet bloc reported considering establishment of steel and oil pool:



The Yugoslav ambassador in Moscow told American officials on 7 June he has learned that the Soviet bloc countries discussed the possibility of organizing a steel and oil pool along the lines of the Schuman Plan at a meeting of the Council of Mutual Economic Assistance (CEMA) last March.

The ambassador saw in this an indication of a Soviet attempt to organize economic relations with the Satellites to give the appearance of greater equality, and to furnish a more stable and enduring base for Soviet-Satellite relations.

Comment: A petroleum pool would be little more than a showpiece, because the USSR already controls almost all Satellite oil production and distribution. While a steel pool would not result in equality it would have definite economic advantages, since it would facilitate the standardization of metallurgical products and ultimately reduce production and maintenance costs.

25X1



11 June 54

Approved For Release 2004/03/11 : CIA-RDP79T00975A001600150001-7



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FAR EAST

25X1A⁴. American proposal on exchange rate likely to inflame Rhee:

[REDACTED] Ambassador Briggs is far from optimistic over the probable outcome of the proposed negotiations with President Rhee for a change in the exchange rate from 180 to 300

hwan per dollar. He reports this is an issue capable of inflaming Rhee probably more than any other except that of South Korean-Japanese relations, and the United States can expect to encounter "angry, indignant, and irrational opposition." He believes Rhee will once again threaten to terminate hwan advances to the UN Command and forego all further American aid.

Comment: Rhee argues that frequent changes in the rate in the past have been a major cause of inflation, which he believes can be controlled by maintaining a permanent rate. This misconception delayed implementation of the economic aid program for several months, and caused him to announce last December that the 180-to-one rate was "unchangeable forever."

The South Korean government is now engaging in an excited press campaign to discredit the aid program and force the removal of Economic Co-ordinator Wood. The aid program is only one of several unsettled issues which Rhee is using to maintain constant pressure on the United States in the hope of maintaining his bargaining initiative.

SOUTHEAST ASIA

5. French fear their build-up in Tonkin is insufficient:

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[REDACTED] the French high command feels its current build-up of mobile strength to 11 or 12 mobile groups will not be sufficient to stop the Viet Minh battle corps and at the same time prevent enemy forces within the delta from gaining control of Hanoi's lines of communication.

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11 June 54

25X1A

25X1

[redacted]
if Viet Minh troops can overwhelm the French strong point of Phu Ly, in the southern delta, they should be able to advance rapidly toward Hanoi and through the southeastern provinces. Although their tactical gain might be limited, the psychological effect on the populace would be tremendous.

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Comment: [redacted]

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[redacted] Viet Minh activity in the Phu Ly sector might be a diversion to distract attention from the Vinh Yen-Phuc Yen region just north of Hanoi, where [redacted] the major action is more likely to occur.

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6. French alleged planning to release misleading figures on Indochina reinforcements:

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A French briefing officer has indicated to the American army attaché in Saigon that there is a definite French plan to mislead the press with respect to the strength of the reinforcements from France. The

briefing officer advised the attaché to disregard press references to reinforcements, strength in the delta and French intentions as "deliberately misleading." He believed the troops reaching Indochina from overseas would be comparatively few.

The attaché comments that if such a plan exists, its purpose probably is to confuse the Viet Minh's estimate of the Tonkin delta situation and to boost Vietnamese morale.

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Reinforcements numbering about 10,000 troops have been scheduled to arrive in Indochina since the fall of

- 6 -

11 June 54

25X1A



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Dien Bien Phu. Only about one third of these have arrived up to now. A decision to send additional forces was to be made in Paris after General Ely returned from Indochina late in May, but no report of such a decision has been received thus far. [REDACTED]

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NEAR EAST - AFRICA

7. Pro-British group reported plotting coup in Iran:

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A pro-British clique headed by [REDACTED] is informing the Iranian public that the Zahedi government is about to be replaced by an American-sponsored military dictatorship with [REDACTED]

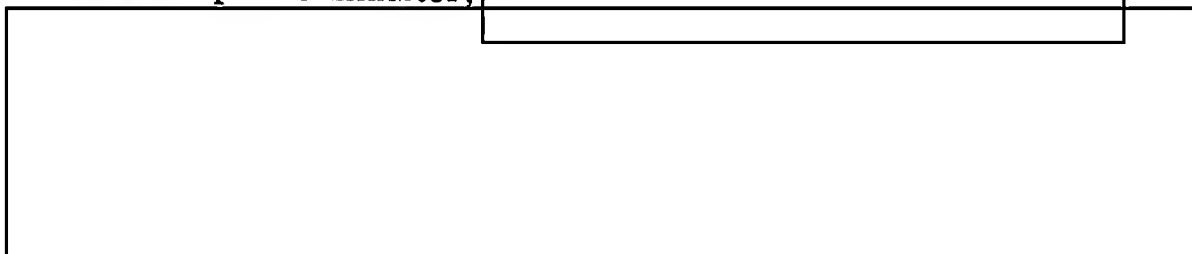
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himself as prime minister, [REDACTED]

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Comment: Intrigues aimed at undermining the Zahedi government have been growing increasingly bold. Conspirators have at various times claimed American sponsorship-- as the present group is doing--in order to make themselves more acceptable to the Iranian public. [REDACTED]

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The current rumors in Tehran accusing Zahedi's regime of corruption have apparently been accepted by the shah as a basis for considering Zahedi's replacement. Nevertheless, the shah has assured the American and British ambassadors he will support Zahedi, at least until the oil negotiations are completed.

11 June 54



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LATIN AMERICA

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9. Argentine foreign minister expresses reservations on OAS meeting:



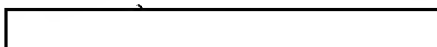
Argentine foreign minister Remorino told Ambassador Nufer on 8 June that "other means of solution" should be exhausted before calling an Organization of American

States meeting on the Guatemalan situation. If a meeting is called, he said, it should be called under the OAS charter rather than under the 1947 Inter-American Treaty of Reciprocal Assistance or the Caracas anti-Communist resolution. He said Argentina's final position will take account of the anti-intervention declaration also adopted at Caracas.

- 8 -

11 June 54

25X1A



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Remorino disclaimed any knowledge of President Peron's agreement on 1 June to an OAS meeting on Guatemala, but said Peron would "of course" not break his word.

Comment: Remorino's statements do not necessarily indicate a reversal of Peron's earlier expression of support for an OAS meeting, but may foreshadow new difficulties on tactics and timing.

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10. Argentine government blames Communists for labor strife:

The Argentine government is publicly charging that Communists provoked the recent labor disturbances in the metallurgical industry which resulted in

several deaths. The press has headlined the accusation and published the text of a Communist directive on strike strategy.

Ambassador Nufer sees this development as further evidence of President Peron's growing concern with Communist infiltration. Previously the government tended to blame any internal strife on "capitalist imperialism."

Comment: The government has been reported increasingly concerned over stepped-up Communist agitation to exploit labor unrest and to complicate current wage negotiations in various industries.

The controlled press is also denouncing the WFTU as a Moscow weapon and commenting on Communist objectives in Latin America.

- 9 -

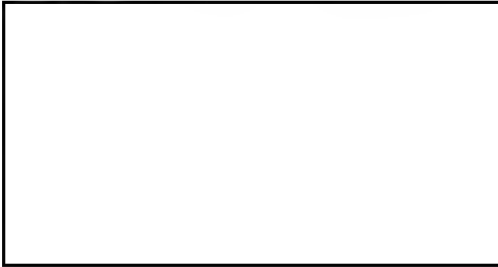
11 June 54

These developments may bring the Communist threat into sharper focus for the Argentines. [REDACTED]

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11. Comment on Bogota disturbances:

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Reports from Bogota indicate the student rioting which began there on 8 June has been brought under control but tension remains high.

The cause of the disturbances is not known. A government spokesman has blamed anti-regime elements including the Communists.

There are indications the rioting was prolonged, if not provoked, by the archconservative followers of ousted president Laureano Gomez.

The government is apparently exerting every effort to bring the capital back to normal before the scheduled celebrations on the anniversary of President Rojas' bloodless coup of 13 June 1953. Continued disorders could interfere with convocation this month of the constituent assembly, which has generally been expected to elect Rojas for a full four-year term. Should the political tension sparked by the rioting continue for long, Colombia's recovery from the four-year civil war which ended only last fall would be seriously jeopardized. [REDACTED]

25X1A

11 June 54

